



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Piñon Unified School District No. 4

Year Ended June 30, 2002



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

July 12, 2004

Governing Board
Piñon Unified School District No. 4
P. O. Box 839
Piñon, AZ 86510

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2002, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the *Uniform System of Financial Records*. In addition, as of the date of this letter, the District had not contracted for an audit of the fiscal year ended June 30, 2003. Consequently, the District is also in noncompliance with the USFR for not submitting its Single Audit Reporting Package for fiscal year 2002-03.

We also noted that the auditors qualified their opinion on the District's financial statements for the year ended June 30, 2002, because the District did not maintain adequate internal accounting records and controls over revenues and expenditures recorded in federal and state grant funds.

District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction. During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the business manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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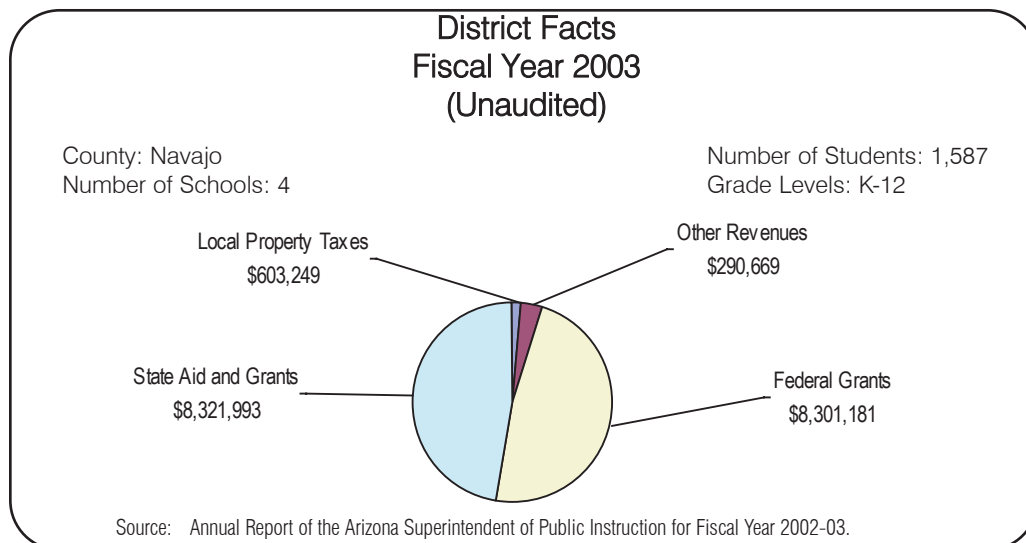
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INTRODUCTION

Piñon Unified School District No. 4 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$17.5 million it received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002, we determined that the District had failed to comply with the USFR. In addition, because of inadequate internal accounting records and controls over federal and state grant funds, the District's auditors qualified their opinion on the District's financial statements for the year ended June 30, 2002. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain and report accurate financial information

The District did not reconcile its accounting records. As a result, the auditors expressed a qualified opinion on its fiscal year 2002 financial statements. The District has also not submitted its last 3 years' single audit reports by the filing deadline.

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District also should report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure its accounting records and Annual Financial Report (AFR) are accurate and complete, and its single audit report is issued on a timely basis. However, the District did not fully accomplish this objective. Specifically, the District did not reconcile its records of revenues, expenditures, and cash on deposit with the County Treasurer to the County School Superintendent's (CSS) or the County Treasurer's records, which resulted in the auditors expressing a qualified opinion on the District's fiscal year 2002 financial statements. The auditors also noted large deficit cash balances in a number of Special Revenue and Capital Projects Funds at year end and that revenue and expenditure amounts reported on the AFR did not agree to the revenue and adopted expenditure budgets and the District's accounting records.

Further, the District did not contract for its fiscal years 2001 and 2002 single audits in a timely manner and has not yet contracted for its 2003 audit. As a result, its 2001 report was submitted 7 months late, its 2002 report was 10 and-a-half months late, and its 2003 report is now 3 months late.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Reconcile the District's records of cash balances by fund monthly, and its records of revenues, expenditures, and cash balances by fund, program, function, and object code at least at fiscal year end to the CSS' records. If balances do not agree, compare individual transactions, locate all differences, document the reasons for differences, and make appropriate corrections. If corrections are necessary, the District should ensure that all journal entry forms have been approved and signed by an employee other than the preparer. The employee preparing the reconciliation should sign, date, and retain the reconciliations.
- Ensure the CSS reconciles the District's records of cash balances to the County Treasurer's records at least monthly, resolves all differences, and makes appropriate corrections.

Reconciliation procedures can be found on USFR pages VI-B-8 through 10.

- Update accounting records for all revenues, expenditures, transfers, and any necessary adjustments before preparing the AFR.
- Require a second employee to verify that amounts reported on the AFR agree to the District's revenue and adopted expenditure budgets, and to the accounting records before it is submitted to the CSS and ADE.
- Contract for audit services in sufficient time to allow auditors to complete the District's single audit and submit the required reports by the filing deadline of March 31 of the subsequent year.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow the School District Procurement Rules or the USFR guidelines for purchases. Specifically, the District did not issue invitations for bids or requests for proposals for purchases exceeding the sealed bid threshold, and did not obtain oral and written price quotations for purchases requiring them.

The District did not follow any competitive purchasing requirements for the 30 purchases tested; and therefore, did not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$32,700.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,700. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,700.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,700.

The District should maintain an accurate capital assets list

The District failed to properly maintain a capital assets list for, or periodically inventory, over \$58 million in capital assets, making them susceptible to loss or theft.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and to ensure they are properly identified and accounted for. However, the District did not properly maintain a capital assets list or perform a physical inventory in the last 3 years. In addition, the District did not reconcile capital acquisitions to capital expenditures or reconcile the current year's list to the previous year's list.

Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled:

- Prepare and maintain a current capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more and a current stewardship list of all items costing \$1,000 or more, but less than \$5,000. Include all required information for each item on the capital assets and stewardship lists.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year and the prior year's capital assets list to the current year's list, and make all necessary corrections.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the lists, and add items to or remove items from the list as necessary.

USFR section VI-E provides detailed guidance on how to adequately account for the District's capital assets.

The District's controls over cash need to be strengthened

Poor cash controls left District cash susceptible to theft or loss.

The District receives cash for extracurricular activities fees tax credits, student activities, and day care services. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited. However, the District did not always prepare cash collection reports, and when reports were

prepared, they were not always prepared in a timely manner. In addition, the District did not always deposit monies into the correct bank account, and bank accounts were not always reconciled to the District's records monthly. Further, the District inappropriately paid referees and travel reimbursements related to auxiliary operations from the Maintenance and Operation Fund revolving bank account and documentation supporting expenditures from that account was not always retained.

Recommendations

The following procedures can help the District strengthen controls over cash:

- Prepare and retain daily sales reports or cash collection reports for all student activities and auxiliary operations cash collections.
- Ensure that all bank accounts are used only for their designated purpose and that revenues are deposited in and expenditures are made from the correct account.
- Retain supporting documentation such as purchase requisitions, purchase orders, receiving reports, and vendor invoices for all expenditures.
- Prepare written reconciliations monthly for all bank accounts and make all necessary corrections for errors noted.

The District must maintain documentation for expenditures of Classroom Site Fund monies

The Classroom Site Fund (CSF) was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as an additional source of funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend CSF distributions in accordance with Arizona Revised Statutes. However, the District was not able to provide documentation as to how it spent these monies, and as a result, the auditors could not determine whether the District spent the monies in accordance with statute.

The District could not provide documentation as to how it used \$295,000 of CSF monies received in FY 2001-02.

Recommendation

The District must monitor and ensure that CSF monies are used in accordance with A.R.S. §15-977. Specifically, the District should prepare and maintain documentation to support how the CSF monies it receives are spent.

The District's student attendance records need improvement

The District did not submit its 100th-day membership and absences report to ADE as required.

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. Accurate reporting is essential to ensure that the District receives its fair share of state aid. However, the District did not maintain documentation to support membership and absences reported to ADE. In addition, student enrollment forms did not always include the date the student was enrolled or the date the form was prepared. Further, the District did not submit its 100th-day membership and absences report to ADE.

Recommendations

To help ensure the District receives the correct amount of state funding, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports*, and retain documentation to support attendance reported. The documentation should include student entry and withdrawal forms, attendance registers, and membership and absences reports. Also, the District should assign an employee to verify that membership and absences reported to ADE agree to the District's attendance records and are calculated accurately. Further, student enrollment forms should include the date the student was enrolled, as well as the date prepared.